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SUBJECT: TURBULENCE AHEAD FOR CSA PRIVATIZATION

REF: PRAGUE 475

¶1. (C) SUMMARY: Conditions for Czech Airlines (CSA) privatization worsen by the day. The Unimex-Travel Service consortium is the only remaining bidder in the tender and CSA's reported losses soar. Czech officials say they are past the point of no return in the privatization process, but at the current rate of asset liquidation and financial hemorrhaging, there may not be much left to privatize aside from name brand and runway space. END SUMMARY.

Four Original Bidders Now Down to One

¶2. (SBU) The ongoing second round of bidding in the CSA tender began with two bidders from the original four in round one. Air France-KLM pulled out of the CSA privatization tender on August 21, leaving the Unimex-Travel Service consortium (Czech and Icelandic, respectively) as the sole bidder. The Czech Finance Ministry (MOF), which is overseeing the privatization, responded by extending the bidding deadline for the second time until September 30. Extension of the bidding deadline is not likely to widen the pool of bidders or improve bids.

¶3. (C) Widely-read Czech news magazine Respekt has speculated that Unimex is bidding as a middleman for Aeroflot. The Russian firm was eliminated from bidding in the first round last April for what the then-ruling Topolanek government called "security and economic reasons." Though Respekt offers no evidence to support this claim, the Czechs' growing ambivalence about Russian investment in strategic infrastructure (reftel) has caused the claim to be propagated throughout the media.

CSA Value Drops, CEO Chops Off Assets

¶4. (C) MOF originally expected that the state's 92% stake in CSA would fetch CZK 3-5 billion ($166-$277 million), but these figures look increasingly more optimistic and less realistic. Prominent financial analyst Jan Prochazka told EconOff on August 25 that last year he estimated CSA's sale price at CZK 4.5 billion ($250 million), but he now anticipates a figure closer to CZK 2.5 billion ($138 million) given the single bidder and CSA's recent financial hardships. CSA posted a loss of CZK 1.83 billion ($102 million) in the first half of 2009 and management plans to lay off more than 800 of CSA's 4600-member staff.

¶5. (C) Even more serious, however, is the large-scale liquidation of major company assets. CEO Radomir Lasak plans to cancel flights to New York, effectively ending all CSA flights to the U.S. as of October 26, and to sell three 737s. On August 25, the CSA board rejected Lasak's plans for future chop-shopping its profitable duty-free business, its

plane repair and its pilot training services. However the board did approve negotiations to sell six of its remaining long haul planes. According to Prochazka, what is ultimately for sale is the CSA name brand and 50% of Prague's Ruzyne Airport's operating space.

¶6. (SBU) On August 19, CSA pilots penned an open letter to Interim Prime Minister Jan Fischer requesting Lasak's removal for cannibalizing CSA during the bidding process. According to media reports, Former Prime Minister Mirek Topolanek privately echoed their concerns to Finance Minister Eduard Janota, who stands at the helm of the privatization proceedings. Janota responded on August 21 that Lasak would remain in position until the privatization process is completed. On August 25, opposition party CSSD Chairman Jiri Paroubek was quoted in the media as blaming Lasak for poor privatization proceedings and criticizing Janota's failure to remove him.

¶5. (C) COMMENT: By all accounts, the CSA privatization is floundering. Financial gains from CSA's final sale will be meager compared to the loss of face that such close media attention to such a messy process brings to state bodies on a daily basis. With October elections fast approaching, it is no surprise that each new development becomes an opportunity for party finger-pointing instead of troubleshooting. END COMMENT
Thompson-Jones